

Analysis of Profit Models for Digital Technology Enterprises

-- Taking Bilibili as an Example

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Abstract: The Chinese online video industry is developing at a rapid pace, and by 2022, the market size of the online video industry has reached 162.63 billion yuan. The Chinese online video industry has gone through a period of growth and standardization, and is currently in a period of integration and exploration. It is necessary to explore its own profit model. Bilibili is a typical enterprise in the Chinese online video industry, which has developed from a small website to a listed company today. Its profit model has certain reference significance for the same industry. Although from the perspective of financial statements, Bilibili's losses have gradually increased in recent years, and from the perspective of company profitability, long-term losses are not optimistic. However, Bilibili has still obtained strategic financing from large enterprises such as Sony, Alibaba, and Tencent, indicating that its market potential cannot be underestimated. Based on this, this article will take Bilibili as a case study to analyze its profit model from the perspective of financial statements. On the one hand, it is hoped that the online video industry will recognize the shortcomings of Bilibili and strengthen its internal management to reverse the current situation of continuous losses in the industry environment. On the other hand, I hope that other enterprises in the anime field in China can get inspiration from the advantages of Bilibili, and promote the development of the anime field in China through learning, learning and upgrading.

Keywords: Bilibili; Digital Technology Enterprises; Profit Model Analysis.

1. Literature Review

The concept of "value chain" proposed by renowned strategic expert Michael Porter (1980) extends the concept of "profit model" [1]. Paul Timmers (1998) deeply analyzed the profit model from the perspective of the industrial chain and systematically defined it as a system prepared for the circulation of products, services, and enterprise information [2]. People generally believe [2] this is an early concept of profit models. Adrian J. Slywolzky et al. (2000) first proposed the element of profitability [3]. Four elements that constitute a profit model, with profit leverage as the core element, are profit points, profit objects, profit sources, and profit barriers. Li Xuesi (2003) summarized the five elements of a profit model: profit source, profit point, profit leverage, profit barrier, and profit target, and proposed the viewpoint that an excellent profit model must be able to highlight the uniqueness of an enterprise that is different from other enterprises [4]. This uniqueness is manifested in how it defines customers, customer needs and preferences, competitors, products and services, and business content to attract customers and create profits.

In terms of research on the profit model of the online video industry, Lam Nikki Hei Tong (2020) proposed a viewpoint on the profit model of the online video industry: the healthy and stable development of enterprises in the industry depends on the quality of film and television copyrights they own [5]. Liu Yan (2015) pointed out that the vast majority of enterprises often do not pay attention to the innovation of business models in internet enterprises from the perspective of value acquisition [6]. They often use the same profit model from the initial stage to the mature stage. And these companies did not pay attention to the contribution of profit models to their profits. At the same time, it is pointed out that the existing business models in the Internet era are being

overturned and require continuous innovation to adapt to this change. Lv Xiaoxuan and Wang Suxin (2015) suggested that Youku should adopt an organic combination of multiple profit models to form a compound profit model that adapts to its own development when analyzing Youku [7]. And summarized the four main sources of revenue for video websites at present, namely advertising revenue, internet user fees, website self-produced drama revenue, and fees charged for providing video playback platforms. Their different combinations constitute different profit models for video websites.

Overall, it can be seen that there is consistency in the research direction of profit models both domestically and internationally. In terms of the research direction of profit models, the analysis of scholars both domestically and internationally includes but is not limited to the political orientation of the country, the business activities of the company, business direction, personnel reserves, and other aspects. In recent years, the development of the Internet has led more scholars to turn their attention to e-commerce platforms, especially by analyzing cases and providing suggestions.

2. The Constituent Elements of a Profit Model

The composition of a profit model mainly includes five elements, namely profit points, profit targets, profit sources, profit leverage, and profit barriers.

1. Profit point: refers to the key to generating revenue for the enterprise and generating profits. It is also a product and service created by enterprises based on their own characteristics and the customer group they face. Appropriate and unique profit points can help businesses win on their own track, and also have significant advantages in enhancing

customer loyalty and stickiness.

2. Profit target: Refers to the consumer group currently or potentially owned by the enterprise. Enterprises determine which services they should provide by understanding the preferences and consumption tendencies of existing consumer groups, and expand potential consumer groups by guessing consumer psychology.

3. Profit source: mainly refers to the source of income for enterprises, which refers to the goods, services, and consumer groups provided by enterprises. They are the only source of profit for enterprises. All sources of profit for a company must have a certain scale and be stable enough. A stable source of profit is the lifeline for the company's survival.

4. Profit leverage: refers to the specific measures taken by enterprises to increase profits, that is, to maximize benefits through minimal costs and costs, in order to achieve the goal of increasing enterprise profits and expanding user groups. Just like a lever structure can amplify input force and provide a larger output force.

5. Profit barrier: refers to a guarantee for enterprises to prevent competition in the same industry and seize their own market. In order to prevent themselves from falling behind and being beaten, companies usually need to continuously invest time, energy, and money to consolidate research and development innovation to ensure their core competitiveness. On the one hand, protecting enterprises enables them to safely pass through the development period, facilitating their own development. On the other hand, it also enables enterprises to continuously grow and progress, without falling into a stagnant state.

3. Basic Information of Bilibili Company

In 2007, a netizen named "Acg_xilin" created a Chinese anime website named "AcFun", which was favored by many funds. The founder of Bilibili, Xu Yi, was one of the earliest users of this website.

In 2009, due to network system issues, A site was forced to close. Xu Yi and his friends created a temporary site called "mikufans" for them to continue browsing on this virtual site. The temporary site was renamed "Bilibili" in 2010.

At that time, for the creator of "Acg_xilin", running A site required more time and money, so A site encountered many problems. But Bilibili always maintains a backup operation, and many popular videos on A site will be stored on Bilibili. In addition, Bilibili's user experience is better, so some of AcFun's uploaders will also migrate to Bilibili.

Compared with other peers, "established" video companies such as iQIYI, Youku and Tencent Video adopt the profit model of online competition for the copyright of sports events, documentaries, TV dramas, films, etc., and offline investment attraction for advertisers. Bilibili uses its differentiated service content - specializing in anime industries and developing anime industries to obtain profits. And with the addition of Ali and Tencent, Bilibili began to have more funds to purchase some copyrights, which deepened the anime service.

4. Analysis of the Profit Model of Bilibili

(1) Analysis of the Profit Sources of Bilibili

According to data, Bilibili's main sources of profit include value-added services, advertising, mobile games, e-

commerce, and other four aspects. The largest proportion is value-added services, accounting for 40%. In terms of value-added services, Bilibili provides customers with large membership content subscription services, live streaming, audio, and comic content. Due to the abundance of copyrights and rich content owned by Bilibili, many users are willing to purchase a large membership to enhance their user experience.

The proportion of mobile games has been gradually increasing in recent years, and Bilibili is clearly very dedicated to managing their source of profit. The development of Bilibili's gaming business can be summarized into two lines. One line is to develop new games and become a platform for agent distribution of new games. Bilibili's game center integrates and categorizes the existing games on the website, and provides various download and appointment services. Since 2014, Bilibili has been releasing mobile games for third-party game developers and launched its first self-developed game in August 2017. Since 2017, Bilibili has continuously represented or independently developed games, which has not only improved the variety of games but also enhanced its ability for independent innovation. The other line is based on gaming and spreads to other industries outward. For example, game character figurines, game character creations, and game related manga exhibitions can establish community topics related to games based on these foundations, further increasing the discussion and exposure of games to attract players.

Advertising business is as important a source of revenue for Bilibili as gaming. Due to Bilibili's promise that all users will not insert patch ads during video playback, Bilibili's advertising revenue can only be divided into two categories: one is pushed on the phone login page, homepage, or below the video. This type of advertising usually recommends the games, comics, and videos that Bilibili wanted to market at the time, and even recommends some cooperative brands during large-scale shopping events such as Double Eleven. Another approach is to collaborate with Bilibili video creators, anchors, or official accounts to drive discussions and market products or services through their own influence. The advertising content will be pushed to users through big data calculation of their preferences and consumption habits.

The remaining business is e-commerce, accounting for 14%. Mainly from product sales through the Bilibili e-commerce platform, as well as income from organizing several offline performance activities. For example, tickets for Bilibili's New Year's Eve concert, and the sale of mascot figurines. Of course, the above businesses are not fighting alone. The key to Bilibili's revenue is the cooperation between departments.

(2) Analysis of the Profit Target of Bilibili

The main profit target of Bilibili is the Z+generation, who have characteristics such as youth and cultural pursuit. They are willing to pay for high-quality content and attractive user experience, and are the core user group of Bilibili. The user group of Bilibili is rapidly growing. In the fourth quarter of 2021, the average monthly active users of Bilibili reached 271.7 million, while the average monthly active users in the same period of 2020 were 202.0 million. Bilibili users have shown extremely high levels of participation on the platform. In 2021, the average daily time spent by a single active user on Bilibili's mobile application remained above 80 minutes. In the fourth quarter of 2021, the daily average video views of Bilibili were about 2.2 billion, a year-on-year increase of 80.4%. In 2021, Bilibili's users generated an average of 8.5

billion interactions per month on the platform, compared to 5.1 billion in 2020.

Regular users of Bilibili need to pass a membership exam that includes 100 multiple topic questions to become regular members of Bilibili. This user group has a higher level of participation and loyalty to Bilibili's platform. As of December 31, 2021, Bilibili has approximately 145.3 million official members, a year-on-year increase of 41.6%. Bilibili believes that members who pass the membership exam can better adapt to Bilibili's community culture and values. Therefore, we will also provide them with member exclusive interactive functions to further enhance the stickiness of user communities and improve retention rates. The official members of Bilibili actively use various social and interactive functions provided on the platform, such as sending bullet comments, comments, and private messages. For formal members who have visited the Bilibili platform every month since 2020, their retention rates for the 3rd, 6th, 9th, and 12th months have remained around 80%.

(3) Analysis of the profit points of Bilibili

Bilibili's profit points are divided into: video, live streaming, columns, cat ear FM, performance activities, games, comics, advertisements, etc. Among them, gaming is one of the main sources of income, including game live streaming, virtual prop sales, etc; Videos, including web dramas, anime, variety shows, movies, and other video genres, have expanded their target audience; Live streaming mainly relies on signing with the anchor and sharing rewards with the anchor; The column is a knowledge sharing platform provided by Bilibili for users, including reading novels, exchanging information under the column, expressing one's own opinions and feelings, etc; Cat Ear FM provides music entertainment services, including music programs, audio novels, ASMR, etc; In terms of comics, it provides a large number of paid comic works.

(4) Analysis of profitability leverage of Bilibili

The profit leverage of this website mainly takes the following forms:

(1) Focusing on originality in video content, combining video production technology to provide users with high-quality original video content;

(2) The platform has high visibility and a large number of fans, which can generate more revenue through promotion and marketing;

(3) Featured activities that meet the different needs of users from various circles, including online and offline activities, etc;

(4) Hosting and broadcasting esports events to bring more revenue to the website.

(5) Analysis of the Profit Barrier of Bilibili

Bilibili's users have formed a unique community culture, making Bilibili stand out from other online content providers. Users go to Bilibili's platform to search for creative content covering different types of cultures, as well as a powerful, dynamic, and safe community experience. Maintaining and promoting the community culture at Bilibili is extremely important for retaining and expanding customer base.

In addition, Bilibili has a high user stickiness because its "anime" culture has established a huge user group. During this period, its film, esports, anime and other copyrights, as well as native films, formed a profit barrier and further promoted the continuous improvement of its content ecosystem.

5. The Problems in the Profit Model of Bilibili

(1) Due to the expansion of the community sector, some users have been lost. In the third quarter of 2022, the average daily active users on Bilibili reached 90.3 million, and the average monthly active users reached 333 million, a year-on-year increase of 25%. This huge user base has been brought about by the enrichment and operation of Bilibili's content, which is undoubtedly a good thing for Bilibili's profitability. But this is also a double-edged sword, as the vast user base represents a greater effort required to manage and maintain order. Moreover, the declining age group of users also implies more viewpoints and generation gaps. Conflicts and negative comments between users can easily damage the community atmosphere and brand image of Bilibili. This also leads to the loss of some fixed users and a decrease in the perception of potential users towards Bilibili.

(2) Value added services often rely on introduction. Observing the financial statements, it can be observed that the proportion of revenue generated by value-added services in Bilibili's main profitable business in the past three years is increasing year by year. The most important source of revenue under value-added services is the large member content subscription service. However, the sources of Bilibili in this part mostly come from heavily invested imports and external broadcasts, which undoubtedly greatly increases operating costs. If the content of the heavily invested introduction is controversial, the losses caused by the delisting of Bilibili will also be huge. For example, in 2020, Bilibili introduced manga content from "My Heroes Academy" which distorted the authenticity of China's World War II history, leading to a public outcry in China. At this time when it was necessary to express its stance, Bilibili removed a series of products related to this work, including comics, anime, figurines, emoticons, etc. This incident not only caused financial losses, but also had a significant impact on the company's reputation. Such incidents are not uncommon in the business process of Bilibili, making it particularly passive in these businesses.

(3) The company's strategic layout needs to be adjusted. Through the analysis of Bilibili's financial statements, it was found that its operating net profit margin has been negatively increasing since its listing in 2018, and it still reached its maximum negative growth value after its secondary financing listing in 2021. Although there was some recovery in 2022, it is still worth noting. In 2022, the number of users and active users of Bilibili has increased compared to the past. However, in recent years, due to the impact of the epidemic, people's consumption levels have become more conservative, and coupled with a decrease in population dividends, it is difficult for Bilibili to utilize the growth of users to obtain more benefits. If we don't make adjustments to our strategic layout and optimize our profit structure as soon as possible, Bilibili may end up with a tailgate due to having too many users.

6. Conclusion and Recommendations

As a newly listed young company, the entire process of Bilibili has not been easy. Faced with increasing costs year by year and persistent losses, Bilibili has been seeking solutions. Its value lies in its unique characteristics, which have led to the development of its own community culture. Bilibili has its own loyal user base, which is its own guarantee. But Bilibili is not content with the status quo, it has its own ambitions. Although Bilibili's current expansion has brought some

friction and user loss, these contradictions will become smaller and smaller with greater management efforts and more attentive management. Finding a balance between both parties and expanding user tolerance will be more beneficial to the enterprise. Thereby further strengthening the construction of profit barriers. In recent years, the user base of Bilibili has been continuously expanding, but with the economic downturn, competition within the industry has gradually increased. Although Bilibili is favored by capital, the increasing losses year by year also indicate certain pain points in its profit model.

Based on this analysis, the following suggestions are proposed:

(1) Optimize the community sector and avoid blind expansion. Bilibili should optimize the internal community of the web page. Admittedly, opening more sections can make more users see here, but this will lose Bilibili's own characteristics - anime. When expanding the sector, it is necessary to first balance the contradictions among internal users, guide public opinion, and solve problems. Expanding sectors too quickly can lead to the loss of many existing user groups. Therefore, it is important to optimize sectors and create a seamless transition between them.

(2) In the future, balance the risks brought by introduction with independent innovation. There are two advantages to innovation. Firstly, although innovation may increase operating costs in the early stages, high-quality innovative content can bring new revenue while avoiding excessive reliance on imports. Secondly, Bilibili itself is an excellent platform, and it would be very beneficial to innovate new content and establish brand image on its own. And the mature internal production process of Bilibili can also quickly monetize the innovative new IP,

(3) By highlighting its own characteristics to ensure core competitiveness and generate revenue. Bilibili is currently a young company that has just gone public, and although its current losses are not too rare, they should also be taken seriously. We should be more proactive in acquiring traffic, while increasing the number of monthly active users and strengthening our own characteristics to increase paid content. Quickly monetize the existing flow, accelerate the turnover speed of assets, and create more revenue for the company.

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